

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Gas
& Electric Company (U 902 E) for Approval of
Power Purchase Agreement.

Application 02-07-034
(Filed July 15, 2002)

**OPINION APPROVING SAN DIEGO GAS & ELECTRIC
COMPANY'S APPLICATION FOR POWER PURCHASE
AGREEMENT WITH THE CITY OF SAN DIEGO****Summary**

This decision approves San Diego Gas and Electric Company's (SDG&E) Power Purchase Agreement (PPA) with the City of San Diego (City) for excess energy from the City's qualifying facility (QF) at Point Loma.

Background

SDG&E filed its application July 15, 2002, requesting Commission approval of a PPA with the City, and a Motion for Leave to File Confidential Materials Under Seal according to Pub. Util. Code Section 583,¹ and General Order 66-C. Included in SDG&E's application is a redacted public version of the PPA (Attachment A) that excludes energy prices and certain other terms. SDG&E filed under seal a confidential unredacted version of Attachment A and Attachment B, an economic analysis of ratepayer benefits. SDG&E asserts that these facts should remain confidential since they contain commercially sensitive information, the public disclosure of which could harm both SDG&E and the

¹ All references are to the California Public Utilities Code unless otherwise noted.

City by putting them at a competitive disadvantage in future PPA negotiations with other parties.² SDG&E requests expedited *ex parte* Commission action under Rule 15 (d) of the Commission's Rules of Practice and Procedure.

SDG&E states that SDG&E and the City, pursuant to Decision 96-10-036, entered into a Uniform Standard Offer 1 (USO 1) PPA in January 1998 providing that excess energy³ from the QF facility would be sold to the California Power Exchange. Following expiration of the USO 1 PPA on December 31, 2001, SDG&E and the City negotiated a new PPA, the subject of this application, providing for excess energy sales to SDG&E. SDG&E further states that the PPA provides ratepayer savings since the energy price is the lower of either the Short-Run Avoided Cost (SRAC) energy price or a PPA price cap.⁴ The PPA provides for an adjustment in the cap in the event that SRAC prices rise above a given level for a period of at least three consecutive months (secondary cap). The PPA also provides that the secondary cap will revert to its initial value if SRAC prices fall below the predetermined level for three consecutive months. The effective date of the PPA commences upon Commission approval. The contract term is for a period of six months, with two six-month renewals at City's discretion, for an estimated total term of eighteen months.

SDG&E states that the City's QF is a renewable resource consisting of biogas and hydroelectric units with a net nameplate rating of 6,200 kilowatts, and thus furthers the Commission's statutory obligation to reserve a portion of

² Public disclosure of this information may also harm SDG&E's ratepayers.

³ Excess energy is defined as energy surplus to operation of the City's QF, and any other use by the City.

⁴ The PPA is for energy only and there are no payments for capacity.

California generating capacity for renewable resources as directed by Section 701.3. SDG&E further states it agreed to purchase energy from the City's QF as it made environmental and economic sense, and the power mix helped reduce SDG&E's reliance on fossil generation, which could be easily affected by volatile market conditions and rising natural gas prices.

SDG&E recommends that the instant proceeding should be categorized as ratesetting, and that there is no need for evidentiary hearings as there are no material facts in dispute. SDG&E requests that the Commission issue an order providing that the PPA, including its terms and prices, is reasonable, and that SDG&E should be permitted to recover in rates its full costs for power purchased under the PPA, subject to SDG&E's prudent administration of the contract.

Discussion

We have reviewed the confidential version of the PPA including contract terms and the energy purchase prices proposed by SDG&E. We have also reviewed SDG&E's economic analysis of ratepayer benefits filed under seal. In weighing the information and analysis provided in these documents, we conclude that the PPA with City provides positive benefits to ratepayers under a range of scenarios and that the proposed PPA is reasonable.

SDG&E claims that the PPA would provide an estimated energy and capacity savings to ratepayers between 32.5% and 38.5% during the first six-month term of the contract.⁵ This savings is estimated to vary between 34.8% and 40.5% if the contract is in effect for the entire eighteen-months. Although we have discounted this savings in our analysis with regard to the future value of

⁵ Based on a comparison to current SDG&E SRAC payments.

capacity, the result continues to show that the new PPA will provide net positive benefits to ratepayers. We believe that the minimum energy savings to ratepayers will be at least 5% assuming a six-month term, and 14% assuming an eighteen-month term, of the cost otherwise incurred under current SRAC payments. The overall savings, including capacity value, may significantly exceed these minimum amounts.

The term of this contract is very short. As discussed above, the maximum term is 18 months from the CPUC approval date. In other QF contracts we have approved, amendments are for much longer periods leading to greater uncertainty regarding the results of the projections. In this instance, the relatively short timeframe of the contract further supports our analysis by reducing the uncertainty of future SRAC payments that we use for purposes of comparisons. Thus the shorter analysis period also supports our conclusion that the PPA with the City is reasonable.

In sum, we find SDG&E's application to be reasonable and we will approve it. We also find that SDG&E's PPA furthers our goal as directed by Section 701.3 to reserve a portion of generating capacity for renewable resources. Our approval will permit SDG&E to recover in full through its rates, the costs for purchased energy under the PPA subject to SDG&E's prudent administration of the contract.

This matter is assigned to Commissioner Wood and ALJ DeBerry. In Resolution ALJ 176-3092 dated August 8, 2002, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given this status public hearing is not necessary and it is not necessary to alter the preliminary determination made in Resolution ALJ 176-3092.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Assignment of Proceeding

Carl Wood is the Assigned Commissioner and Bruce DeBerry is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The USO 1 PPA between SDG&E and the City expired December 31, 2001.
2. In early 2002, SDG&E and the City negotiated a new PPA for the City's QF at Point Loma that provides for a six-month contract, with two six-month renewals at the City's option.
3. The City's QF is a renewable resource consisting of biogas and hydroelectric units.
4. The new PPA provides energy to SDG&E at a cost that is less than the projected cost using the current SRAC formula.
5. As a result of reduced energy costs, the new PPA is expected to benefit ratepayers by a minimum 5% savings compared to projected SRAC energy costs, and 14% savings if the contract term is extended to eighteen months.
6. Including the value of capacity costs may increase the total savings to ratepayers by significantly more than 5%, or 14%, compared to projected SRAC costs.
7. The short period for which the contracts are in effect reduces the uncertainty of energy cost projections.

Conclusions of Law

1. The terms and conditions of the PPA set forth in SDG&E's July 15, 2002 application are reasonable and should be approved.

2. SDG&E should be permitted to recover in full, through rates, its costs for purchased energy under the PPA, subject to SDG&E's prudent administration of the contract.

3. The specific energy prices, estimated energy amount, and analysis of economic benefits of the PPA should remain confidential since they contain commercially sensitive competitive information, the public disclosure of which would harm the City, SDG&E and ratepayers.

4. Approval of the PPA furthers the Commission's statutory obligation under Section 701.3 to reserve a portion of generation for renewable resources.

5. Because all issues have been addressed by this decision, this proceeding should be closed.

6. Since no one objected to the relief requested in SDG&E's application, we waive public review and comment on this decision.

7. In order that ratepayers may immediately benefit from the PPA, this decision should be effective today.

O R D E R

IT IS ORDERED that:

1. This order is a final determination that a hearing is not needed in this proceeding.

2. The July 15, 2002 application of San Diego Gas and Electric Company (SDG&E) for approval of the Purchased Power Agreement (PPA) with the City of San Diego is approved.

3. SDG&E is authorized to recover in rates all payments under the PPA subject to prudent administration of the contract.

4. SDG&E's motion to file under seal the unredacted version of the application and its economic analysis of ratepayer benefits is granted. The unredacted documents shall remain under seal for a period of two years from the mailing date of this decision, and during that period shall not be made accessible or disclosed to anyone other than Commission staff except upon the further order or ruling of the Commission, the Assigned Commissioner, the assigned Administrative Law Judge (ALJ), or the ALJ then designated as Law and Motion Judge.

5. The proceeding is closed.

This order is effective today.

Dated _____, at San Francisco, California.